

CITY STORES COMPANY
and
Subsidiary Companies



*Annual Report
To Stockholders*

For the period from
February 1, 1936 to
January 31, 1937

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CITY STORES COMPANY



DIRECTORS

SAUL COHN	Newark, N. J.
WILLIAM D. GORDON	Philadelphia, Pa.
ALBERT M. GREENFIELD	Philadelphia, Pa.
WALTER T. GROSSCUP	Philadelphia, Pa.
GEORGE H. JOHNSON	Philadelphia, Pa.
JOSEPH H. LOVEMAN	Birmingham, Ala.
ERNEST W. NIVER	New York City
PAUL H. SAUNDERS	New Orleans, La.
HERBERT J. SCHWARTZ	New Orleans, La.
HARRY G. SUNDHEIM	Philadelphia, Pa.

OFFICERS

ALBERT M. GREENFIELD . .	<i>Chairman of the Board</i>
SAUL COHN	<i>President</i>
WILLIAM D. GORDON . . .	<i>Executive Vice President and Treasurer</i>
LOUIS N. BATOFF	<i>Secretary</i>
LENARD B. KEIFFER . . .	<i>Asst. Secretary and Asst. Treasurer</i>

TRANSFER AGENT CENTRAL HANOVER BK. & TRUST CO.
70 Broadway, New York, N. Y.

REGISTRAR AGENT CHASE NATIONAL BANK
11 Broad Street, New York, N. Y.

AUDITORS ERNST & ERNST
19 Rector Street, New York, N. Y.

Annual Report of
CITY STORES COMPANY
and Subsidiary Companies
January 31, 1937

April 28, 1937.

To the Stockholders of

CITY STORES COMPANY:

THERE is submitted herewith the annual report of your Company for the fiscal year ended January 31, 1937, together with certification of Messrs. Ernst & Ernst, independent auditors. The report includes:

1. Balance sheet of City Stores Company (Parent Company)—(Exhibit 1).
2. Income and expense statement and surplus analysis of City Stores Company (Parent Company)—(Exhibits 2 and 3).
3. Consolidated balance sheet of City Stores Company and subsidiary companies—(Exhibit 4).
4. Comparative consolidated income and expense statement of City Stores Company and subsidiaries for the three fiscal years ended January 31, 1935, January 31, 1936 and January 31, 1937—(Exhibit 5).
5. Analysis of consolidated earned surplus of City Stores Company and its subsidiaries—(Exhibit 6).
6. Balance sheets of each subsidiary—(Exhibits 7 to 14, inclusive).

SALES AND PROFITS

During the fiscal year ended January 31, 1937, the net sales amounted to \$38,436,183.00, an increase of 14.54% over the preceding year.

The following table indicates for the past three fiscal years the progressive increase in sales and profits of the subsidiary companies, which profits are before deducting federal and state income taxes and surtaxes on undistributed profits, minority interest proportion and Parent Company's interest on funded debt, but after eliminating inter-company dividends:

FISCAL YEAR ENDED JANUARY 31	SALES VOLUME	NET PROFIT OF SUBSIDIARIES As ABOVE INDICATED
1937	\$38,436,183	\$1,694,013
1936	33,557,665	942,543
1935	32,088,321	460,458

The net profits of the individual subsidiary companies for the past three fiscal years on the foregoing basis, are as follows:

	FISCAL YEAR ENDED JANUARY 31		
	1937	1936	1935
Lit Brothers, Philadelphia, Pa. and subsidiary companies	\$1,102,780.08	\$479,657.05	\$331,307.14
Maison Blanche Company, New Orleans, La., and its subsidiary companies; Homecraft Finance Corporation, and Maison Blanche Realty Company, New Orleans, La., not including dividend received from wholly owned subsidiary (B. Lowenstein & Bros., Inc.) of \$105,000 in the form of promissory notes	317,996.77	391,220.32	154,545.16
Loveman, Joseph & Loeb, Birmingham, Ala., and its subsidiary company, Home Furnishings Finance Corporation	151,866.57	27,803.69	33,413.33
B. Lowenstein & Bros., Inc., Memphis, Tenn., and its subsidiary company, Homecraft Finance Corporation of Memphis	115,221.66	33,473.48	66,727.71
Kaufman-Straus Company, Inc., Louisville, Ky., and its subsidiary company, Homecraft Finance Corporation of Louisville (after deducting \$63,523.79 flood loss applicable to fiscal year ended January 31, 1937)	5,894.97	14,752.85	18,083.08
Goerke-Kirch Company (in liquidation) (Losses for fiscal years ended January 31, 1937 and 1936 have been charged to reserves and surplus)	—0—	—0—	75,640.99
Kenville Realty Company, Louisville, Ky.	721.63	—0—	1,595.47
City Stores Mercantile Company, New York City	469.18	4,364.07	444.52
	<u>\$1,694,012.50</u>	<u>\$942,543.32</u>	<u>\$460,457.82</u>
DEDUCT: Federal and State Income Taxes and surtaxes on undistributed profits	333,635.56	121,695.67	38,235.55
	<u><u>\$1,360,376.94</u></u>	<u><u>\$820,847.65</u></u>	<u><u>\$422,222.27</u></u>

From the profit of \$1,360,376.94 for the fiscal year ended January 31, 1937, as shown above, there are deducted: proportion of net profits applicable to preferred and common stocks of subsidiary companies not owned by City Stores Company amounting to \$348,089.42 and interest on funded debt and other charges of Parent Company of \$395,511.37, which results in a net profit of \$616,776.15 applicable to City Stores Company. The following table for the past three fiscal years shows the consolidated net profit or loss applicable to City Stores Company:

FISCAL YEAR ENDED JANUARY 31	CONSOLIDATED PROFIT OR Loss
1937	\$616,776
1936	\$303,337
1935	\$524,329

(Italics indicate loss)

It should be stated that the recent unprecedented flood at Louisville caused a reduction of \$63,524.00 in the profits of Kaufman-Straus Company, Inc., our subsidiary in that city, in the fiscal year ended January 31, 1937.

The final adjustment to reflect the Company's loss in the Goerke-Kirch Company liquidation, as determined in the past year, amounted to \$47,417.42, as noted in the accompanying analysis of consolidated earned surplus (Exhibit 6).

During the year costs of occupancy were further reduced in our subsidiary companies through the lowering of leasehold rental and interest charges.

BALANCE SHEETS

The financial condition of the Parent Company and of the individual companies is shown in the accompanying balance sheets as of January 31, 1937.

To take care of the increasing volume of business, merchandise inventories were increased \$767,435.00 or 16.32% during the current year. Inventories were taken according to the approved retail practice and under the supervision of Messrs. Ernst & Ernst, independent auditors, who made extensive tests of the quantities in each store.

The upward trend in home furnishings volume and the nation-wide trend towards credit expansion resulted in the increase of receivables to the extent of \$629,004.00.

The reserves for doubtful accounts are determined by an aging of the accounts. The amounts provided to meet these contingencies are based upon the experience of the company, and, in the opinion of the management, are adequate.

The earned surplus of this Company at January 31, 1937, amounted to \$473,766.41. Details of the changes in this account during the fiscal year ended January 31, 1937, are shown in the analysis of Earned Surplus (Exhibit 3). There have been no changes in the Company's capital surplus during the year.

CAPITAL STOCK STRUCTURE

There was outstanding at the end of the year 1,210,042 $\frac{4}{12}$ shares of common stock, of which 501 shares are held in treasury. The number was not increased during the current year. These shares constitute the only outstanding capital stock of the Company.

Of the 957,124 shares restricted from trading through the facilities of the New York Stock Exchange 102,200 shares were released from this restriction during the year upon application to the New York Stock Exchange authorized by the Board of Directors of your Company pursuant to the agreement, dated April 16, 1935, made under the plan of reorganization. Under this agreement the holders of restricted shares of stock have the right to request the Company from time to time, at the Company's expense, to apply to the New York Stock Exchange for release from restricted listing.

The Directors of the Company have resolved that it is advisable to offer executives and managers of this Company and its subsidiaries, some of whom are Directors of the Company, twenty thousand (20,000) shares of the capital stock of the Company at \$7.50 per share. This action will be submitted to stockholders for approval at the annual meeting to be held on May 19, 1937. The proceeds will be used for corporate purposes, including the payment of the Company's outstanding notes payable, amounting to \$126,985.00, as of January 31, 1937, of which \$104,985.00 represents note of this Company accepted by the holder of the 6% Lit Stock Collateral Convertible Notes in consideration of the cancellation of interest coupons in a similar amount due April 1, 1936, on this Company's 6% Lit Stock Collateral Convertible Notes.

FUNDED DEBT

The status of the Company with respect to sinking fund provisions of indentures covering its funded debt is outlined in footnote C to statement of Income and Expenses of City Stores Company (Exhibit 2).

During the past fiscal year your Company sold for cash 22,127 shares of the common stock of Scruggs, Vandervoort & Barney Dry Goods Company from its assets pledged as collateral for its 6% General Collateral Convertible Notes. The proceeds

amounting to \$331,905.00 were used to retire subsequent to January 31, 1937, at par \$324,000.00 of the outstanding 6% General Collateral Convertible Notes, plus accrued interest, thus reducing our funded debt by that amount. These shares were acquired by the Company during the years 1928, 1929 and 1930 at a cost of \$463,291.47, and were carried on the books at the value of \$44,254.00 representing market price at the time of recapitalization of the Company as of January 31, 1935. The sale realized a book profit of \$287,651.00, but resulted in a loss of \$131,386.47 compared with original cost.

Prior to the close of the last fiscal year, the Trustee for the 6% Lit Stock Collateral Convertible Notes received from the Company's investment in the Preferred Stock of Lit Brothers cash dividends amounting to \$360,720.00. Out of this sum, after the payment therefrom on October 1, 1936 and April 1, 1937, of interest coupons on the 6% Lit Stock Collateral Convertible Notes, there remained the sum of \$150,720.00 with the Trustee in the sinking fund under the terms of the Indenture, for the retirement of 6% Lit Stock Collateral Convertible Notes.

PLANT AND EQUIPMENT

During the year the Company continued its policy of improving the physical condition of the properties and expanding their facilities. These improvements include the installation of elevators in the property of Maison Blanche Realty Company, New Orleans; the renovation and rearrangement at Maison Blanche Company, New Orleans; the air conditioning of four floors and the Downstairs Store at B. Lowenstein & Bros., Memphis; the opening of the Downstairs Store at Loveman, Joseph & Loeb, Birmingham; and the installation of escalators and improvement of selling facilities at Lit Brothers, Philadelphia.

By agreement with the owners of the property occupied by Kaufman-Straus Company, Inc., the facilities of the building have been completely restored and improved and the Downstairs Store is being reconditioned so as to provide more and better equipment for the conduct of the business.

PERSONNEL

The organization of the Company has been strengthened in keeping with the prospect of a continued rise in sales volume. The effect has been a keener promotion of the business, and an improved customer service.

During the year substantial progress was made in unifying the financial policies and accounting practices of the respective units, so as to produce a more efficient customer service and control of overhead. Through the progress made by the central office in further perfecting cooperative buying policies each store was enabled to profit by the experiences and resources of the other units.

The improvement in the ability of the Company to serve the public and to earn a return upon its invested capital could not have been accomplished without the loyal support of our stockholders who reside in the areas of our respective units, and without the faithful service on the part of the employees and officers of the Company and its subsidiaries.

For the Directors.

ALBERT M. GREENFIELD,
Chairman of the Board.

Respectfully submitted,
SAUL COHN,
President.

ERNST & ERNST
ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE

NEW YORK

19 RECTOR STREET

April 19, 1937.

City Stores Company,
New York City.

We have made an examination of the consolidated balance sheet of CITY STORES COMPANY and subsidiary companies and of the balance sheets of the individual companies as at January 31, 1937; we also made an examination of the statements of income and surplus of City Stores Company and of the consolidated statements of income and surplus of that company and subsidiaries for the fiscal year ended January 31, 1937. In connection therewith we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

Receivables were reviewed with store managements and adequate reserves appear to have been provided for estimated shrinkage in collection. Inventories of merchandise were certified to us by store managements as to condition, saleability and valuation and have been valued not in excess of the lower of cost or market by the retail inventory method. We supervised the inventory procedure, made tests of physical count of a portion of the quantities and reviewed application of the retail inventory method and related computations.

In our opinion based upon our examination, the accompanying consolidated balance sheet of CITY STORES COMPANY and subsidiaries and the balance sheets of the individual companies, with the footnotes appended thereto, fairly present, respectively, the financial condition of the consolidated and of the individual companies at January 31, 1937. On the same basis it is our opinion that the accompanying statements of income and surplus of CITY STORES COMPANY and the statements of consolidated income and consolidated surplus fairly reflect, respectively, the results of operations and changes in surplus of the parent company and of the parent company and subsidiaries combined for the fiscal year then ended. Further, except that the amount of merchandise in transit to one subsidiary is shown in footnote on balance sheets instead of in inventory and in accounts payable, it is our opinion that the statements have been prepared in accordance with accepted accounting principles, and, except for the change during the past year by one subsidiary in the method of accounting for unearned carrying charges on installment accounts as set forth in Note "B" to the Statement of Consolidated Income and Expenses, on a basis consistent with the preceding year.

ERNST & ERNST

CITY STORES COMPANY, NEW YORK CITY (Parent Company)

BALANCE SHEET

January 31, 1937

A S S E T S			
CASH		\$	5,446.77
CASH WITH DEPOSITARIES UNDER INDENTURES SECURING FUNDED DEBT (Note A):			
For interest and sinking fund requirements of funded debt	\$	347,609.30	
Proceeds from sale of pledged collateral		331,905.00	679,514.30
SUBSIDIARY COMPANIES:			
Notes and account receivable			43,038.35
INVESTMENT IN SUBSIDIARY COMPANIES:			
City Stores Company proportion of net tangible assets of subsidiary companies based on their balance sheets at January 31, 1935, plus \$105,427.10 representing dividend paid to City Stores Company by one subsidiary company in capital stock of another subsidiary out of earnings subsequent to January 31, 1935 (Note B):			
Unpledged		29,466.11	
Pledged as collateral to funded debt		13,592,293.11	13,621,759.22
OTHER INVESTMENTS:			
Capital stocks of Scruggs-Vandervoort-Barney Dry Goods Company— at cost, less reserve of \$6,884.75—(pledged as collateral to funded debt)—(market value \$16,810.00)		7,488.00	
Common stock scrip of City Stores Company		86.33	7,574.33
DEFERRED CHARGE			512.50
			<u>\$14,357,845.47</u>
L I A B I L I T I E S			
NOTES PAYABLE:			
Partly secured by notes receivable from subsidiary company	\$	126,985.00	
ACCOUNTS PAYABLE:			
Subsidiary company	\$	597.44	
Other		1,608.06	2,205.50
ACCRUED ACCOUNTS:			
Interest on funded debt		130,000.00	
Expenses		23,558.85	153,558.85
FUNDED DEBT (Notes A and H):			
Ten Year 6% Lit Stock Collateral Convertible Notes—due Octo- ber 1, 1944		3,500,000.00	
Ten Year 6% General Collateral Convertible Notes—due Octo- ber 1, 1944		3,000,000.00	6,500,000.00
CAPITAL AND SURPLUS:			
CAPITAL STOCK:			
Class "A" stock 6% cumulative—par value \$5.00 per share—author- ized and unissued 700,000 shares (all reserved for conversion of Ten Year 6% Lit Stock Collateral Convertible Notes)			
Common stock—par value \$5.00 per share:			
Authorized	1,900,000	shs.	
LESS: Reserved for conver- sion of Ten Year 6% General Collateral Con- vertible Notes	600,000	shs.	
In treasury	501	"	
Unissued and available for general corporate purposes	89,957-8/12	"	690,458-8/12 "
Outstanding (Note C)	1,209,541-4/12	"	6,047,706.66
CAPITAL SURPLUS	\$1,053,623.05		
EARNED SURPLUS (since Feb. 1, 1935) (Notes E and F)	473,766.41	1,527,389.46	7,575,096.12
			<u>\$14,357,845.47</u>

(Footnotes on bottom of opposite page)

CITY STORES COMPANY, NEW YORK CITY (Parent Company)

INCOME AND EXPENSES

For the fiscal year ended January 31, 1937

INCOME

Dividends received from subsidiary companies:		
In cash	\$631,886.14	
In capital stock of a subsidiary company (Note A)	105,427.10	\$737,313.24
From subsidiary companies for administrative costs of Parent Company.....	130,889.28	
Interest earned, etc.	2,150.68	\$870,353.20

EXPENSES

General expenses		138,551.33
Interest on funded debt:		\$731,801.87
On \$3,500,000.00 Ten Year 6% Lit Stock Collateral Convertible Notes	210,000.00	
On \$3,000,000.00 Ten Year 6% General Collateral Convertible Notes	180,000.00	390,000.00
NET PROFIT FOR PERIOD		\$341,801.87

NOTE "A": Represents 835 shares of capital stock of Maison Blanche Realty Company, paid as dividend to City Stores Company by Maison Blanche Company, the valuation representing average cost of such shares to the latter company. These shares have been deposited with trustee as additional collateral securing Ten Year 6% General Collateral Convertible Notes of City Stores Company.

NOTE "B": No provision had been made on the books of the Company or in the above statement of Income and Expenses for Federal normal income taxes or surtax on undistributed profits, by reason of the Company's claims for deduction in connection with liquidation of a subsidiary. This statement is subject to final determination of the Company's position with respect thereto.

NOTE "C": Cash dividends and other income from the collateral held by the trustees under the indentures must first be used by trustees for payment of interest and then used to comply with the sinking fund provisions of the indentures covering the funded debt which require annual payments commencing with the year ending October 1, 1935 of \$140,000 on the 6% Lit Stock Collateral Convertible Notes and \$120,000 per year on the 6% General Collateral Convertible Notes. Under the terms of the indentures the provisions of the sinking fund are cumulative but failure to pay into the sinking fund does not constitute a default.

As of January 31, 1937, unpaid sinking fund requirements totalled \$520,000.00, but trustees held for noteholders under the indentures cash in the amount of \$150,720.00 to apply against the sinking fund requirements of the 6% Lit Stock Collateral Convertible Notes and \$11,609.30 to apply against the sinking fund requirements of the 6% General Collateral Convertible Notes.

Exhibit 3

ANALYSIS OF EARNED SURPLUS

For the fiscal year ended January 31, 1937

PROFIT AND LOSS DEFICIT—JANUARY 31, 1936—per former report.....		\$143,685.46
ADDITIONS		
Net profit for the fiscal year ended January 31, 1937 per statement of income and expenses	\$341,801.87	
Excess of proceeds from sale of common stock of Scruggs-Vandervoort-Barney Dry Goods Company over market value at time of reorganization as of January 31, 1935	287,651.00	629,452.87
DEDUCTION		485,767.41
Writing down investment in and account receivable from a subsidiary company in liquidation, to estimated realizable value		12,001.00
EARNED SURPLUS—JANUARY 31, 1937—per balance sheet		\$473,766.41

FOOTNOTES TO BALANCE SHEET

NOTE "A": Prior to the close of the last fiscal year, the Trustee for the 6% Lit Stock Collateral Convertible Notes received from the Company's investment in the Preferred Stock of Lit Brothers cash dividends amounting to \$360,720.00. Out of this sum, after the payment therefrom on October 1, 1936 and on April 1, 1937 of interest coupons on the 6% Lit Stock Collateral Convertible Notes, there remained \$150,720.00, which sum remains with the Trustee in the sinking fund under the terms of the Indenture, for the retirement of 6% Lit Stock Collateral Convertible Notes. Of the proceeds from sale of pledged collateral (22,127 shares of common stock of Scruggs-Vandervoort-Barney Dry Goods Company) \$331,367.66 was applied subsequent to January 31, 1937 to the purchase at par, for redemption, plus accrued interest, of \$324,000.00 par value of 6% General Collateral Convertible Notes.

NOTE "B": City Stores Company's portion of net tangible assets of subsidiary companies, excluding Goerke-Kirch Company (in liquidation), based on their balance sheets at January 31, 1937, amounted to \$14,277,875.12.

NOTE "C": The outstanding shares include scrip and shares required to complete exchange of stock issued under prior capitalization.

NOTE "D": At January 31, 1937 City Stores Company was guarantor of loans of a subsidiary company (Kaufman-Straus Company, Inc.) in the amount of \$200,000.00.

NOTE "E": Including \$2,505.00 reserved for common stock held in treasury.

NOTE "F": In accordance with the terms of both indentures securing funded debt of the company, the company, so long as any of the 6% Collateral Convertible Notes issued under either indenture are outstanding, will not declare, pay or set apart for payment cash dividends upon its common stock except out of surplus earned subsequent to October 1, 1934.

NOTE "G": There is a pending lawsuit against the company involving a claim of \$7,500.00, which the company is actively defending.

NOTE "H": See Note C to statement of Income and Expenses of City Stores Company (Exhibit 2) for provisions of indentures regarding sinking funds and company's present position with regards thereto.

NOTE "I": This Balance Sheet is subject to adjustment, if any, upon final determination of liability for Federal taxes. No provision has been made on the books of the company or in the annexed Balance Sheet for Federal normal income taxes or surtax on undistributed profits for the fiscal year ended January 31, 1937, by reason of the company's claims for deductions in connection with liquidation of a subsidiary.

CITY STORES COMPANY, NEW YORK

CONSOLIDATED

January

ASSETS

CURRENT:

Cash	\$ 1,207,460.40	
Notes and accounts receivable—customers (including \$3,659,839.45 of installment notes and accounts) (Note A)—Less: Reserve of \$282,386.29	7,311,811.92	
Notes and accounts receivable from vendors and tenants—Less: Reserve of \$10,000.00	98,988.66	
Merchandise inventories (at retail less accumulated departmental mark-up and reserves as shown on subsidiary company balance sheets) (Note B)..	5,468,962.37	
Marketable securities (not in excess of market)	106,425.07	\$14,193,648.42

CASH WITH DEPOSITARIES UNDER INDENTURES SECURING FUNDED DEBT (Note C):

For interest and sinking fund requirements of funded debt	347,609.30	
Proceeds from sale of pledged collateral	331,905.00	679,514.30

OTHER ASSETS:

Sundry investments—Less: Reserve of \$175,501.59 (\$7,488.00 pledged as collateral to funded debt)	218,260.40	
Sundry notes and accounts receivable, etc.—Less: Reserve of \$21,900.00	63,857.13	
Claims against closed banks—Less: Reserve of \$68,462.73	71,432.28	
Cash surrender value life insurance	29,884.09	
Stock of City Stores Company (541 shares of common stock owned by subsidiaries and scrip)	5,029.26	388,463.16

PERMANENT (Note D)

Land, buildings, fixtures and equipment	\$24,800,728.19	
Less: Reserve for depreciation	5,144,435.48	
	19,656,292.71	
Improvements to leased properties	449,444.40	
Less: Reserve for amortization	138,602.24	
	310,842.16	19,967,134.87

GOODWILL (Carried on books of subsidiaries in total amount of \$2,792,158.27).. 1.00

DEFERRED CHARGES:

Unexpired insurance premiums, unamortized mortgage expense, inventory of supplies, prepaid expenses, etc.	401,367.14
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NOTE "A": Notes receivable amounting to \$114,820.16 are insured under provisions of Title I of National Housing Act and secured by retention of title on goods sold.

NOTE "B": Merchandise in transit to a subsidiary company, at January 31, 1937 amounting to \$120,860.91 is not included in inventories nor accounts payable in the above consolidated balance sheet.

NOTE "C": Prior to the close of the last fiscal year, the Trustee for the 6% Lit Stock Collateral Convertible Notes received from the Company's investment in the Preferred Stock of Lit Brothers cash dividends amounting to \$360,720.00. Out of this sum, after the payment therefrom on October 1, 1936 and on April 1, 1937 of interest coupons on the 6% Lit Stock Collateral Convertible Notes, there remained \$150,720.00, which sum remains with the Trustee in the sinking fund under the terms of the Indenture, for the retirement of 6% Lit Stock Collateral Convertible Notes. Of the proceeds from sale of pledged collateral (22,127 shares of common stock of Scruggs-Vandervoort-Barney Dry Goods Company) \$331,367.66 was applied subsequent to January 31, 1937 to the purchase at par, for redemption, plus accrued interest, of \$324,000.00 par value of 6% General Collateral Convertible notes.

NOTE "D": Valued at cost to subsidiary companies paid for either in cash or in capital stock at time of organization, except Kaufman-Straus Company, Inc. where furniture, fixtures, improvements to leased building, etc., are included at sound value as determined in January 1936, by The American Appraisal Company, plus subsequent additions at cost, less accruing depreciation, and less subsequent write-down in the case of Kenville Realty Company.

NOTE "E": Reference is made to footnote "B" to the Comparative Consolidated Income and Expenses (Exhibit 5) concerning changes in accounting practice, during the fiscal year under review, of one subsidiary company with respect to interest and carrying charges on accounts resulting from instalment sales, and also the basis on which gross profit on instalment sales is taken into income account.

NOTE "F": The outstanding shares include scrip and shares required to complete exchange of stock issued under prior recapitalization.

NOTE "G": Including \$2,505.00 reserved for common stock held in treasury.

NOTE "H": Reference is made to the pertinent footnotes appearing on the accompanying balance sheets of City Stores Company and subsidiary companies with respect to the position of the Companies as to damage suits and other contingent liabilities.

NOTE "I": This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes.

NOTE "J": Reference is made to footnote F to the balance sheet and footnote C to the statement of income and expenses of City Stores Company (Parent Company) in which the provisions of indenture securing funded debt of the Company are given with respect to the effect upon surplus and income available for dividends.

\$35,630,128.89

CITY, AND SUBSIDIARY COMPANIES

BALANCE SHEET

31, 1937

LIABILITIES

CURRENT:

NOTES PAYABLE:

Banks—for borrowed money	\$ 729,500.00		
Others	127,551.56	\$	857,051.56

ACCOUNTS PAYABLE:

Trade creditors, etc. (Note B)	2,531,476.24		
For improvements and equipment	176,822.02		2,708,298.26

ACCRUED ACCOUNTS, ETC.:

Interest on mortgages, salaries, wages, taxes, etc.	690,364.52		
Federal and state income taxes and surtax on undistributed profits	393,414.58		
Mortgage installments due in 1937	184,000.00		
Interest on funded debt	130,000.00	1,397,779.10	\$ 4,963,128.92

DEFERRED OBLIGATIONS:

Note payable to bank for reconstruction loan, due February 1, 1938.....	60,000.00		
Notes payable for equipment purchased and other deferred items	26,706.10		86,706.10

MORTGAGES PAYABLE BY SUBSIDIARY COMPANIES:

	9,375,000.00		
Less: Installments due in 1937 classified as current above	184,000.00		9,191,000.00

FUNDED DEBT (Notes C and J):

Ten Year 6% Lit Stock Collateral Convertible Notes due October 1, 1944....	3,500,000.00		
Ten Year 6% General Collateral Convertible Notes due October 1, 1944....	3,000,000.00		6,500,000.00

RESERVES:

For redemption of trading stamps, contingencies, etc.			640,235.76
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DEFERRED INCOME:

Unearned carrying charges on installment sales (Note E)			118,571.44
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MINORITY INTEREST:

Preferred stock of subsidiary companies outstanding—at par	4,337,253.00		
Accrued undeclared dividends to January 31, 1937	1,019,955.30	5,357,208.30	
Common stock—subsidiary companies	319,562.00		
Surplus applicable thereto	222,504.35	542,066.35	5,899,274.65

CAPITAL AND SURPLUS:

CAPITAL STOCK:

Class "A" Stock 6% cumulative—par value \$5.00 per share—authorized and unissued 700,000 shares (all reserved for conversion of Ten Year 6% Lit Stock Collateral Convertible Notes)

Common stock—par value \$5.00 per share:

Authorized

Less: Reserve for conversion of

Ten Year 6% General Collateral Convertible Notes

In treasury

Unissued and available for general corporate purposes....

Outstanding (Note F)

CAPITAL SURPLUS

EARNED SURPLUS (Note G)

\$35,630,128.89

CITY STORES COMPANY, NEW YORK CITY and Subsidiary Companies

COMPARATIVE CONSOLIDATED INCOME AND EXPENSES

For the three fiscal years ended January 31, 1937

	Year Ended January 31, 1937	Year Ended January 31, 1936	Year Ended January 31, 1935
NET SALES (including sales of leased departments)	\$38,436,183.59	\$33,557,665.40	\$32,088,320.59
COST OF GOODS SOLD	25,022,885.98	22,013,055.32	20,985,456.12
GROSS PROFIT	13,413,297.61	11,544,610.08	11,102,864.47
SELLING, ADMINISTRATIVE AND GENERAL EXPENSES	11,080,325.76	9,997,211.74	9,934,772.25
	2,332,971.85	1,547,398.34	1,168,092.22
OTHER INCOME:			
Interest	275,073.20	295,817.39	161,750.09
Rentals	185,178.14	184,629.65	187,267.75
Dividends	56,907.80	19,197.00	22,281.00
Discount earned on expense invoices	36,461.43	36,210.61	30,444.98
Miscellaneous	42,453.37	76,658.98	66,828.22
TOTAL OTHER INCOME	596,073.94	612,513.63	468,572.04
	2,929,045.79	2,159,911.97	1,636,664.26
OTHER CHARGES:			
Interest on mortgages and notes payable	467,327.37	452,975.20	506,141.47
Provision for depreciation and amortization	468,643.78	398,696.51	461,907.99
Provision for doubtful accounts; bad debts written off and sundry charges (net)	229,688.60	300,114.60	207,775.66
Extraordinary expenses and losses due to flood, etc....	74,884.91	—0—	—0—
Federal and state income taxes and surtax on undis- tributed profits	333,635.56	121,695.67	38,235.55
TOTAL OTHER CHARGES	1,574,180.22	1,273,481.98	1,214,060.67
PROFIT FOR PERIOD	1,354,865.57	886,429.99	422,603.59
DEDUCT			
Amount of net profit of subsidiaries applicable to pre- ferred and common stocks of subsidiary companies not owned by City Stores Company	348,089.42	193,092.76	130,233.06
PROFIT APPLICABLE TO CITY STORES COMPANY BEFORE DEDUCTING FUNDED DEBT CHARGES	1,006,776.15	693,337.23	292,370.53
DEDUCT			
Interest and charges on Parent Company's funded debt....	390,000.00	390,000.00	*816,699.10
PROFIT OR LOSS FOR PERIOD	\$ 616,776.15	\$ 303,337.23	\$ 524,328.57

*Includes interest and refinancing expenses in connection with old funded debt outstanding prior to recapitalization.

NOTE "A": The above figures with respect to the two fiscal years ending January 31, 1937 and January 31, 1936, do not include the operations of Goerke-Kirch Company, in liquidation. In the figures for the fiscal year ended January 31, 1935 a loss of \$75,640.99 is included from that source.

NOTE "B": During the fiscal year under review, one subsidiary company changed its accounting practice with respect to interest and carrying charges on accounts resulting from the installment sales. Beginning with the year ended January 31, 1937, all unearned interest and carrying charges on such accounts, aggregating \$103,747.08, have been carried forward by it as unearned income; of this amount \$67,682.48 was adjusted through surplus account being applicable to prior years and the remainder of \$36,064.60 being applicable to the fiscal year ended January 31, 1937, has been deducted from income for that year. With the exception of deferring this income and of deferring certain unearned carrying charges with respect to installment accounts of subsidiary companies of department store units (known as Homecraft Finance Corporation, or some similar title), all gross profit and carrying charges on installment sales are taken into income account by the companies in year in which the sale is made.

NOTE "C": The above statement of Income and Expenses is subject to the pertinent footnotes on the financial statement of the respective companies for the three fiscal years.

CITY STORES COMPANY, NEW YORK CITY and Subsidiary Companies

ANALYSIS OF CONSOLIDATED EARNED SURPLUS

For the fiscal year ended January 31, 1937

BALANCE—January 31, 1936			\$ 215,402.93
ADDITIONS			
Consolidated net profit applicable to City Stores Company for the fiscal year ended January 31, 1937	\$ 616,776.15		
Excess of proceeds from sale of pledged collateral (22,127 shares of common stock of Scruggs-Vandervoort- Barney Dry Goods Company) over market value at time of recapitalization as of January 31, 1935	287,651.00		
Transfer to surplus, by a subsidiary company, of an amount to adjust reserve for insurance recovery to conform with basis adopted by Bureau of Internal Revenue....	57,185.04		
Cancellation of sundry reserves by a subsidiary company no longer required	93,975.34	\$1,055,587.53	
DEDUCTIONS			
Amount of interest and carrying charges on installment sales of a subsidiary applicable to prior periods, carried for- ward as deferred income due to change in the account- ing policy of that subsidiary during year	\$ 67,682.48		
Further provision to write down to estimated realizable value investment in and account receivable from Goerke-Kirch Company (in liquidation)	47,417.42		
Sundry adjustments—net	6,777.88		
Increase in minority interest applicable to preferred stock of a subsidiary company for accumulated unearned and undeclared dividends for the year	15,658.61		
Proportion of items in above applicable to minority interests	8,206.19	145,742.58	909,844.95
EARNED SURPLUS—January 31, 1937			<u>\$1,125,247.88</u>

LIT BROTHERS, PHILADELPHIA,
CONSOLIDATED
January

A S S E T S

CURRENT:

Cash	\$ 852,295.10	
Accounts receivable—customers (including \$2,537,269.80 of installment accounts) <i>Less</i> : Reserve of \$134,155.21 for doubtful	4,821,972.32	
Merchandise inventories (at retail less accumulated departmental mark-up)	2,829,051.10	
Marketable securities—(not in excess of market)	106,425.07	\$ 8,609,743.59

OTHER ASSETS:

Sundry investments— <i>Less</i> : Reserve of \$158,675.00	161,480.94	
Sundry notes and accounts receivable, cash in closed banks, etc. <i>Less</i> : Reserve of \$21,900.00	91,296.25	252,777.19

PERMANENT (Note B):

Land, buildings, fixtures, equipment, etc.	17,231,941.91	
<i>Less</i> : Allowance for depreciation	3,360,477.08	13,871,464.83

GOOD WILL—Value on books		1,046,783.23
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DEFERRED CHARGES:

Unamortized mortgage expenses, unexpired insurance premiums, prepaid expenses and supplies		276,068.96
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NOTE "A": Accumulative unpaid and undeclared dividends at January 31, 1937 amounted to \$2,115,675.90 of which \$1,292,580.00 is applicable to Preferred Stock owned by City Stores Company.

NOTE "B": Value at cost paid for in capital stock at time of organization, plus subsequent additions at cost, less accruing depreciation.

NOTE "C": During the fiscal year under review, this company changed its accounting practice with respect to interest and carrying charges on accounts resulting from installment sales. Beginning with the year ended January 31, 1937, all unearned interest and carrying charges on such accounts, aggregating \$103,747.08, have been carried forward by it as unearned income; of this amount \$67,682.48 was adjusted through surplus account being applicable to prior years and the remainder of \$36,064.60 being applicable to the fiscal year ended January 31, 1937, has been deducted from income for that year. With the exception of deferring this income, all gross profit on installment sales is taken into income account by the company in year in which the sale is made.

NOTE "D": This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes.

NOTE "E": No contingent liabilities reported.

\$24,056,837.80

PA., AND SUBSIDIARY COMPANIES
BALANCE SHEET
31, 1937

LIABILITIES

CURRENT:

Accounts payable—trade	\$ 1,431,777.23
Accrued salaries, wages, commissions, taxes, interest, etc.	434,560.20
Federal and state income taxes and surtax on undistributed profits	200,016.91
First mortgage installments due 1937	134,000.00

2,200,354.34

AFFILIATED COMPANY:

Account payable	2,102.69	\$ 2,202,457.03
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RESERVE FOR REDEMPTION OF TRADING STAMPS AND CONTINGENCIES....	456,213.06
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FIRST MORTGAGES ON LAND AND BUILDINGS:

Due serially to 1945	6,725,000.00	
Less: Installments due in 1937 classified as current above	134,000.00	6,591,000.00

DEFERRED INCOME (Note C):

Unearned carrying charges on installment accounts receivable	103,747.08
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CAPITAL AND SURPLUS:

CAPITAL STOCK:

Preferred 6% Cumulative (\$100.00 par value) (Note A)		
Authorized and issued	\$12,000,000.00	
Less: Held in treasury	2,159,647.00	9,840,353.00

Common (no par value)		
1,000,000 shares authorized and issued—less 855 shares held in treasury	999,145.00	

10,839,498.00

SURPLUS (Note A)

Capital	2,500.00		
Earned	3,861,422.63	3,863,922.63	14,703,420.63

\$24,056,837.80

MAISON BLANCHE COMPANY, NEW ORLEANS, LA.

And one of its Subsidiary Companies—Homecraft Finance Corporation

CONSOLIDATED BALANCE SHEET

January 31, 1937

ASSETS			
CURRENT:			
Cash	\$	74,888.26	
Notes receivable—customers (Note A)		65,794.15	
Accounts receivable—customers (including \$346,568.32 installment accounts)—Less: Reserve of \$60,430.33 for doubtful		839,499.78	
Merchandise inventories (at retail less accumulated departmental mark-up and reserve of \$40,000.00)—(Note B)		883,638.37	\$1,863,820.56
AFFILIATED COMPANIES:			
Accounts receivable			12,317.48
OTHER ASSETS:			
Investment in affiliated company—book carrying value (94 shares common stock of City Stores Company)		470.01	
Investments in other companies		42,000.00	
Sundry accounts receivable and advances, cash in closed banks—Less: Reserve of \$28,583.33		12,094.39	54,564.40
SUBSIDIARY COMPANIES:			
MAISON BLANCHE REALTY COMPANY:			
Investment in 6,250 shares of common stock (representing 87.72% of outstanding stock)—at cost (Maison Blanche Company's proportion of net tangible assets of this subsidiary company's assets at January 31, 1937 as shown by its balance sheet amounts to \$993,856.38) (Note C)		789,147.90	
B. LOWENSTEIN & BROS., INC.:			
Investment in 5,000 shares of preferred and 25,000 shares of common stock (its entire outstanding capital stock)—at cost (net tangible assets as shown by this subsidiary company's balance sheet at January 31, 1937 amounts to \$1,372,590.72)		\$2,074,411.38	
Notes receivable			
Due 1940, 1941 and 1942	105,000.00		
Account receivable	244.74	2,179,656.12	2,968,804.02
PERMANENT (Note D):			
Furniture, fixtures and equipment	671,917.15		
Less: Reserve for depreciation	353,215.52	318,701.63	
Improvements to leased properties	200,714.04		
Less: Reserve for amortization	97,733.82	102,980.22	421,681.85
GOOD WILL—Value on books			376,031.24
DEFERRED CHARGES:			
Prepaid expenses, inventory of supplies and unexpired insurance premiums			36,963.38
			<u>\$5,734,182.93</u>

LIABILITIES			
CURRENT:			
Notes payable—bank	\$	50,000.00	
Accounts payable (Note B)		376,200.33	
Accrued salaries, taxes, insurance, etc.		45,120.94	
Federal and state income taxes and surtax on undistributed profits—current and prior years		99,500.00	
		570,821.27	
SUBSIDIARY COMPANY:			
Account payable—Maison Blanche Realty Company		10,472.69	\$ 581,293.96
RESERVE FOR INSURANCE, ETC.			8,700.00
DEFERRED INCOME (Note E):			
Unearned carrying charges—Homecraft Finance Corporation			8,545.98
CAPITAL AND SURPLUS:			
CAPITAL STOCK:			
Common stock (Par value \$50.00)			
Authorized 120,000 shares—80,000 issued		4,000,000.00	
SURPLUS:			
Capital	\$250,000.00		
Earned	885,642.99	1,135,642.99	5,135,642.99
			<u>\$5,734,182.93</u>

NOTE "A": Held by Homecraft Finance Corporation, insured under provisions of Title I of National Housing Act and secured by retention of title on goods sold.

NOTE "B": Merchandise in transit at January 31, 1937 amounting to \$120,860.91 is not included in inventories nor accounts payable in the above balance sheet.

NOTE "C": During the past fiscal year Maison Blanche Company transferred to City Stores Company, as a dividend, 835 shares of capital stock of Maison Blanche Realty Company.

NOTE "D": Valued at cost paid for in cash at time of organization, plus subsequent additions at cost, less accruing depreciation.

NOTE "E": With the exception of the above item of deferred income in respect to carrying charges through its subsidiary, Homecraft Finance Corporation, all gross profit and carrying charges on installment sales are taken into income account in year in which sale is made.

NOTE "F": At January 31, 1937 Maison Blanche Company was guarantor of loans of its subsidiary company, Maison Blanche Realty Company, in the amount of \$40,000.00.

NOTE "G": This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes.

MAISON BLANCHE REALTY COMPANY, NEW ORLEANS, LA.

BALANCE SHEET

January 31, 1937

ASSETS			
CURRENT:			
Cash	\$	12,674.90	
Accounts and notes receivable—tenants— <i>Less</i> : Reserve of \$10,000.00 for doubtful		19,989.11	\$ 32,664.01
AFFILIATED COMPANY:			
Account receivable—Maison Blanche Company			10,472.69
OTHER ASSETS:			
Sundry accounts receivable and advances, cash in closed bank— <i>Less</i> : Reserve of \$37,595.32			1,594.00
PERMANENT: (Note A)			
Land, buildings, fixtures, equipment, etc.	3,516,407.36		
<i>Less</i> : Reserve for depreciation	764,659.79		2,751,747.57
DEFERRED CHARGES:			
Unexpired insurance premiums and prepaid expenses			9,522.27
			<u>\$2,806,000.54</u>
LIABILITIES			
CURRENT:			
Notes payable—banks—(Note B)	\$	40,000.00	
Accounts payable for improvements and equipment		135,859.07	
Accounts payable—other		2,142.78	
Accrued interest and taxes		26,245.49	
Federal and state income taxes—current and prior years		15,662.11	
First mortgage notes (interest rate 4½%)—Installments due in 1937		50,000.00	\$ 269,909.45
FIRST MORTGAGE NOTES—interest rate 4½%:			
Maturing \$25,000.00 semi-annually on May 1, and November 1 to November 1, 1943; balance due May 1, 1944	1,450,000.00		
<i>Less</i> : Installment due in 1937 classified as current above	50,000.00		1,400,000.00
DEFERRED PAVING ASSESSMENTS:			
Payable in twelve equal annual installments			3,094.82
CAPITAL AND SURPLUS:			
CAPITAL STOCK:			
Common stock:			
Authorized	\$750,000.00		
<i>Less</i> : In treasury	37,500.00	712,500.00	
SURPLUS:			
Earned—(Note C)	420,496.27		1,132,996.27
			<u>\$2,806,000.54</u>

NOTE "A": Valued at cost paid for in cash at time of organization, plus subsequent additions at cost, less accruing depreciation.

NOTE "B": Notes payable of the company are guaranteed by Maison Blanche Company.

NOTE "C": Including \$37,500.00 reserved for common stock held in treasury.

NOTE "D": This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes.

NOTE "E": No contingent liabilities reported.

LOVEMAN, JOSEPH & LOEB,
And its Subsidiary Company, Home
CONSOLIDATED
January

ASSETS

CURRENT:

Cash	\$ 80,257.75	
Accounts and notes receivable—customers (including \$244,361.09 of installment accounts and notes—see Note A)— <i>Less</i> : Reserve of \$35,491.66 for doubtful	624,090.10	
Merchandise inventories (at retail less accumulated departmental mark-up and reserve of \$13,000.00)	626,157.82	\$1,330,505.67

AFFILIATED COMPANIES:

Accounts receivable	896.91
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OTHER ASSETS:

Cash surrender value life insurance	29,884.09	
Investments in other companies— <i>Less</i> : Reserve of \$5,581.84	3,025.71	
Sundry accounts and notes receivable, etc.	10,956.46	
Investment in affiliated company—book carrying value (447-4/12 shares common stock of City Stores Company)	4,471.67	48,337.93

PERMANENT: (Note B)

Land, buildings, building equipment, furniture, fixtures, etc.	2,182,249.76	
<i>Less</i> : Reserve for depreciation	91,285.11	2,090,964.65
GOOD WILL—value on books		800,000.00

DEFERRED CHARGES:

Inventory of supplies, unexpired insurance premiums, prepaid expenses, etc.	29,791.48
	<u>\$4,300,496.64</u>

NOTE "A": Notes totalling \$27,445.37 held by Home Furnishing Finance Corporation are insured under provision of Title I of National Housing Act and secured by retention of title on goods sold.

NOTE "B": Land valued at cost paid for in capital stock at time of organization; building, fixtures and equipment valued at cost less subsequent accruing depreciation.

NOTE "C": Excluding charge of \$733,300.00 for preferred stock held in treasury.

NOTE "D": Accumulative unpaid and undeclared dividends at January 31, 1937 on the 7% cumulative preferred stock amounted to \$94,900.75.

BIRMINGHAM, ALABAMA

Furnishing Finance Corporation

BALANCE SHEET

January 31, 1937

LIABILITIES

CURRENT:

Notes payable—banks	\$ 275,000.00	
Notes payable—equipment purchased	5,900.00	
Accounts payable	362,741.04	
Accrued salaries, taxes, expenses, etc.	58,612.43	
Federal and state income taxes and surtax on undistributed profits (estimated) current and prior year (Note G)	54,653.92	
	<u>756,907.39</u>	

AFFILIATED COMPANIES:

Accounts payable	225.00	\$ 757,132.39
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DEFERRED OBLIGATION:

Note payable to bank for reconstruction loan—due February 1, 1938	60,000.00
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FIRST MORTGAGE—5%:

On land, buildings and fixtures—due February 1943, with semi-annual installment payments of \$24,000.00 each beginning February, 1938	1,200,000.00
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RESERVES:

For contingencies, pensions, etc.	169,475.54
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DEFERRED INCOME:

Unearned carrying charges—Home Furnishing Finance Corporation	3,509.71
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CAPITAL AND SURPLUS:

CAPITAL STOCK:

Preferred 7% cumulative — \$100.00 par value—authorized and issued (Note D)	\$1,000,000.00		
Less: In treasury	733,300.00	\$ 266,700.00	
Common stock — \$100.00 par value—Authorized	2,000,000.00		
Less: Unissued	378,000.00	1,622,000.00	1,888,700.00

SURPLUS (Notes C and D)

Capital	130.00		
Earned	221,549.00	221,679.00	2,110,379.00
			<u>\$4,300,496.64</u>

NOTE "E": With the exception of the above item of deferred income in respect to carrying charges through its subsidiary, Home Furnishing Finance Corporation, all gross profit and carrying charges on installment sales are taken into income account in year in which sale is made.

NOTE "F": The company was defendant in several damage suits, with respect to which counsel for the company advised that, in their opinion, losses if any that may result from such suits will be negligible in amount.

NOTE "G": The company proposes to claim exemption from federal surtax on undistributed profits for the year ended January 31, 1937, based upon credit for contracts restricting dividend payments in connection with bank loans. If the company sustains its contention, the federal income and profits taxes for that year will be approximately \$26,000.00 less than the provision shown above.

B. LOWENSTEIN & BROS., INC., MEMPHIS, TENN.

And its Subsidiary Company, Homecraft Finance Corporation of Memphis

CONSOLIDATED BALANCE SHEET

January 31, 1937

A S S E T S

CURRENT:

Cash (including \$10,000.00 deposited in trust with Federal Reserve Bank as collateral—subsequently released)	\$ 84,044.30	
Notes receivable—customers—(Note A)	11,951.48	
Accounts receivable—customers (including \$333,537.51 of installment accounts) <i>Less</i> : Reserve of \$37,309.09 for doubtful	697,239.31	
Merchandise inventories (at retail less accumulated departmental mark-up and reserve of \$20,000.00)	697,657.29	\$1,490,892.38

OTHER ASSETS:

Investment in other companies— <i>Less</i> : Reserve of \$2,500.00	3,664.00	
Sundry notes and accounts receivable	6,888.94	10,552.94

PERMANENT: (Note B)

Store and office fixtures and equipment	\$ 955,410.06	
<i>Less</i> : Reserve for depreciation	544,058.82	411,351.24
Improvements to leased properties	118,308.33	
<i>Less</i> : Reserve for amortization	35,111.42	83,196.91
		494,548.15

GOOD WILL—Value on books		150,000.00
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DEFERRED CHARGES:

Inventory of supplies, unexpired insurance premiums, prepaid expenses, etc.		31,632.02
		<u>\$2,177,625.49</u>

L I A B I L I T I E S

CURRENT:

Notes payable—banks	\$ 138,000.00	
Notes payable—equipment purchased	16,666.56	
Accounts payable	274,875.97	
Accrued taxes, salaries and commissions, etc. current and prior years	63,834.30	
Federal income tax and surtax on undistributed profits	20,250.00	
	513,626.83	

AFFILIATED COMPANIES:

Accounts payable	5,218.56	\$ 518,845.39
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NOTES PAYABLE—due subsequent to January 31, 1938:

For dividend to Maison Blanche Company (Parent Company) (Note C)	105,000.00	
For equipment purchased	23,611.28	128,611.28

RESERVES FOR INSURANCE, ETC.

5,847.16

DEFERRED INCOME: (Note D)

Unearned carrying charges—Homecraft Finance Corporation of Memphis		1,730.94
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CAPITAL AND SURPLUS—DEFICIT:

CAPITAL STOCK:

Preferred 8% cumulative—\$100.00 par value (Note E)		
Authorized	\$ 600,000.00	
<i>Less</i> : Unissued	100,000.00	\$ 500,000.00

Common stock—no par value

25,000 shares authorized and issued	1,500,000.00	2,000,000.00
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DEFICIT: (Note E)	477,409.28	1,522,590.72
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\$2,177,625.49

NOTE "A": Held by Homecraft Finance Corporation of Memphis, insured under provisions of Title I of National Housing Act and secured by retention of title on goods sold.

NOTE "B": Valued at cost paid for in cash at time of organization, plus subsequent additions at cost, less accruing depreciation.

NOTE "C": Notes payable for dividends are payable \$40,000.00 each on January 27, 1940 and 1941 and \$25,000.00 on January 27, 1942.

NOTE "D": With the exception of the above item of deferred income in respect to carrying charges through its subsidiary, Homecraft Finance Corporation of Memphis, all gross profit and carrying charges on installment sales are taken into income account in year in which sale is made.

NOTE "E": Accumulated unpaid and undeclared dividends at January 31, 1937 on the 8% cumulative preferred stock (entirely owned by Maison Blanche Company, its parent company) amounted to \$415,000.00.

NOTE "F": This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes.

NOTE "G": No contingent liabilities reported.

KAUFMAN-STRAUS COMPANY, INC., LOUISVILLE, KY.

And its Subsidiary Company, Homecraft Finance Corporation of Louisville

CONSOLIDATED BALANCE SHEET

January 31, 1937

A S S E T S

CURRENT:

Cash	\$ 73,593.64	
Notes receivable—customers (Notes A and B)	9,629.16	
Accounts receivable—customers (including \$110,727.94 of installment accounts) Less: Reserve of \$15,000.00 for doubtful	320,635.17	
Merchandise inventories (at retail less accumulated departmental mark-up)	432,457.79	\$ 836,315.76

AFFILIATED COMPANY:

Account receivable		6.56
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OTHER ASSETS:

Investments in other companies	603.00	
Sundry accounts receivable and advances	1,246.73	1,849.73

PERMANENT:

Real estate and building—at cost	\$ 1,424.05	
Less: Reserve for depreciation	109.80	1,314.25
Furniture and fixtures, delivery equipment, etc. (Note C)	171,290.67	
Less: Reserve for depreciation	13,491.78	157,798.89
Improvements to leased building (Note C)	130,422.03	
Less: Reserve for amortization	5,757.00	124,665.03
		283,778.17

GOOD WILL—Value on books		419,343.80
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DEFERRED CHARGES:

Inventory of supplies, unexpired insurance premiums and prepaid expenses		18,270.29
		<u>\$1,559,564.31</u>

L I A B I L I T I E S

CURRENT:

Notes payable—banks (Note B)	\$ 204,500.00	
Accounts payable	122,119.61	
Accrued salaries, taxes and expenses	37,811.76	
Federal and state income taxes and surtax on undistributed profits....	3,226.64	

AFFILIATED COMPANIES:

Accounts payable	367,658.01	
	5,170.79	\$ 372,828.80

DEFERRED INCOME: (Note G)

Unearned carrying charges—Homecraft Finance Corporation of Louisville		1,037.73
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CAPITAL AND SURPLUS—DEFICIT:

CAPITAL STOCK:

Preferred 7% cumulative—\$100.00 par value (Note E)			
Authorized	\$750,000.00		
Less: Unissued	\$247,400.00		
Retired	3,700.00	251,100.00	498,900.00
Common—authorized and issued		1,000,000.00	

	1,498,900.00	
DEFICIT (Notes D and E)	313,202.22	1,185,697.78
		<u>\$1,559,564.31</u>

NOTE "A": Held by Homecraft Finance Corporation, insured under provisions of Title I of National Housing Act and secured by retention of title of goods sold.

NOTE "B": Notes payable aggregating \$200,000.00 are guaranteed by City Stores Company (parent company) and the remainder of \$4,500.00 are secured by customers notes receivable of Homecraft Finance Corporation of Louisville amounting to \$7,958.27.

NOTE "C": Stated at sound values as determined in January, 1936 by The American Appraisal Company, plus subsequent additions at cost, less accruing depreciation and amortization.

NOTE "D": Excluding charge of \$3,700.00 for preferred stock retired.

NOTE "E": Accumulated unpaid and undeclared dividends at January 31, 1937 on the 7% cumulative preferred stock amounted to \$209,538.00, of which \$107,814.00 is applicable to preferred shares owned by City Stores Company.

NOTE "F": This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes.

NOTE "G": With the exception of the above item of deferred income in respect to carrying charges through its subsidiary, Homecraft Finance Corporation of Louisville, all gross profit and carrying charges on installment sales are taken into income account in year in which sales are made.

NOTE "H": No contingent liabilities reported.

CITY STORES MERCANTILE COMPANY, NEW YORK CITY

BALANCE SHEET

January 31, 1937

ASSETS

CURRENT:

Cash		\$24,259.68
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AFFILIATED COMPANIES:

Investment (at cost):		
4 shares common stock of Maison Blanche Company	\$ 640.00	
Accounts receivable	12,330.84	12,970.84

OTHER ASSETS:

Sundry accounts receivable		1,212.64
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PERMANENT:

Furniture and fixtures (Note A)	20,087.23	
Less: Reserve for depreciation	17,137.58	2,949.65

DEFERRED CHARGES:

Prepaid taxes		49.50
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TOTAL ASSETS		41,442.31
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DEFICIT:

Deficit	30,829.72	
Less: Capital stock—par value \$100.00 per share		
Authorized 1,250 shares—250 shares issued	25,000.00	5,829.72
		<u>\$47,272.03</u>

LIABILITIES

CURRENT:

Accounts payable	\$ 974.17	
Accrued accounts	286.58	\$ 1,260.75

AFFILIATED COMPANIES:

Accounts payable		46,011.28
		<u>\$47,272.03</u>

NOTE "A": Valued at cost paid for in capital stock at time of organization, plus subsequent additions at cost, less accruing depreciation.

NOTE "B": This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes.

NOTE "C": No contingent liabilities reported.

KENVILLE REALTY COMPANY, LOUISVILLE, KY.

BALANCE SHEET

January 31, 1937

ASSETS

AFFILIATED COMPANY:

Account receivable	\$ 597.44
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PERMANENT:

Land—(Note A)	50,000.00
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	<u>\$50,597.44</u>
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LIABILITIES

ACCRUED ACCOUNTS—including federal income tax and surtax on undivided profits	\$ 438.97
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AFFILIATED COMPANIES:

Accounts payable	106.56
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DEFERRED INCOME	1,443.26
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CAPITAL AND SURPLUS—DEFICIT:

CAPITAL STOCK:

Common stock—\$100.00 par value	
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Authorized and issued	\$50,000.00
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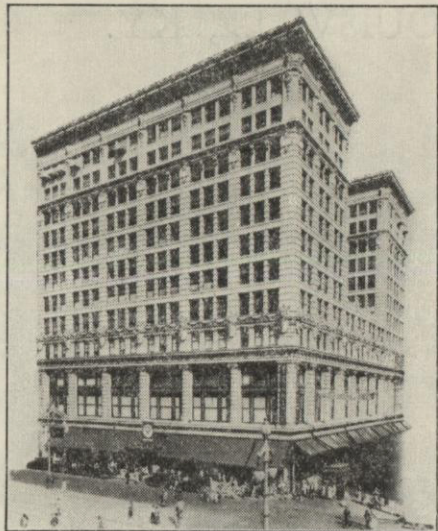
DEFICIT	1,391.35	48,608.65
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	<u>\$50,597.44</u>
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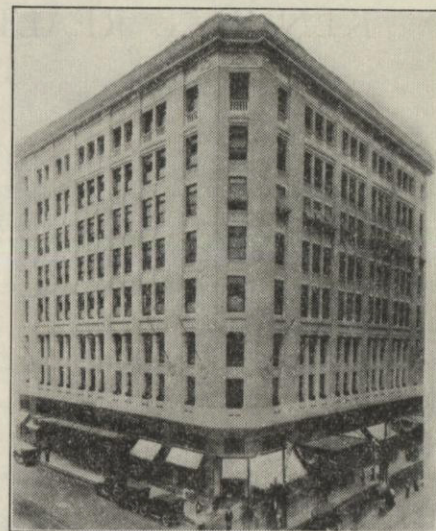
NOTE "A": Valued at cost of \$70,000.00 paid for in cash, less subsequent adjustment of \$20,000.00 against capital surplus as at January 31, 1934.

NOTE "B": This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes.

NOTE "C": No contingent liabilities reported.



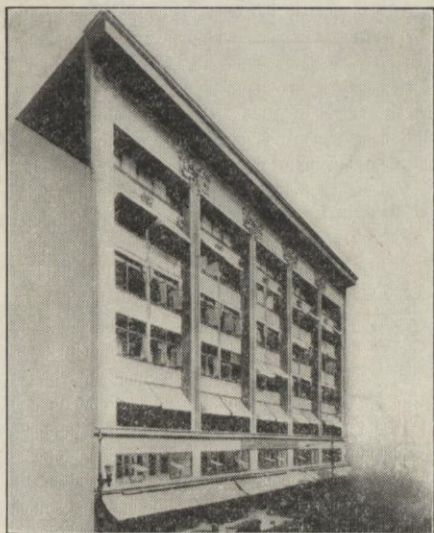
MAISON BLANCHE COMPANY
NEW ORLEANS, LA.



B. LOWENSTEIN & BROS., INC.
MEMPHIS, TENN.



LIT BROS.—PHILADELPHIA, PA.



KAUFMAN-STRAUS CO., INC.
LOUISVILLE, KY.



LOVEMAN, JOSEPH & LOEB—BIRMINGHAM, ALA.